

INDEPENDENT AUDITOR'S REPORT

**State Committee For School District Audits
Members of the Dayton Independent Board of Education
Dayton, Kentucky**

We have audited the accompanying general purpose financial statements of the Dayton Independent Board of Education as of June 30, 2003 and for the year then ended, as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and the audit requirements prescribed by the State Committee for School District Audits in Appendixes I, II and III of the Independent Auditor's Contract. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The general purpose financial statements referred to above do not include the general fixed assets account group which should be included to conform with generally accepted accounting principles. The amounts that should be recorded as assets are not readily available.

In our opinion, except for the effect of the omission discussed in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Board as of June 30, 2003 and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 25, 2003, on our consideration of Dayton Independent Board of Education's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the additional information shown on pages 22 through 32 is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

RANKIN, RANKIN & COMPANY

**Ft. Wright, Kentucky
September 25, 2003**

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**State Committee for School District Audits
Members of the Dayton Independent Board of Education
Dayton, Kentucky**

We have audited the financial statements of Dayton Independent Board of Education as of and for the year ended June 30, 2003, and have issued our report thereon dated September 25, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and the audit requirements prescribed by the State Committee for School District Audits in Appendixes I, II and III of the Independent Auditor's Contract.

Compliance

As part of obtaining reasonable assurance about whether Dayton Independent Board of Education's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an

objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance that is required to be reported under *Government Auditing Standards*.

In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in Appendix II of the Independent Auditor's Contract-State Audit Requirements that are required to be reported under state audit requirements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Dayton Independent Board of Education's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that

misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management in a separate letter dated September 25, 2003.

This report is intended solely for the information and use of management, others within the organization, Board Members, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

RANKIN, RANKIN & COMPANY

**Ft. Wright, Kentucky
September 25, 2003**

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

**State Committee for School District Audits
Members of the Dayton Independent Board of Education
Dayton, Kentucky**

Compliance

We have audited the compliance of Dayton Independent Board of Education with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. Dayton Independent Board of Education's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Dayton Independent Board of Education's management. Our responsibility is to express an opinion on Dayton Independent Board of Education's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the audit

requirements prescribed by the State Committee for School District Audits in Appendixes I, II and III of the Independent Auditor's Contract. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Dayton Independent Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Dayton Independent Board of Education's compliance with those requirements.

In our opinion, Dayton Independent Board of Education complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. The results of our auditing procedures disclosed no instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

The management of Dayton Independent Board of Education is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Dayton Independent Board of Education's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned function. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization, Board Members, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

RANKIN, RANKIN & COMPANY

**Ft. Wright, Kentucky
September 25, 2003**

**State Committee for School District Audits
Members of the Dayton Independent Board of Education
Dayton, Kentucky**

In planning and performing our audit of the financial statements of Dayton Independent Board of Education for year ended June 30, 2003, we considered the Board's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated September 25, 2003 on the financial statements of the Dayton Independent Board of Education.

STATUS OF PRIOR YEAR RECOMMENDATIONS

Board employees were paid for some extra services such as athletic event ticket takers, from the Activity Funds. Board employees should only be paid through the payroll system.

Response: A policy was put in place to require that all payments made to Board employees are paid through the payroll system.

In the sample testing of disbursements for the High School Activity Fund, it was noted that two instances of proper approval for payment were absent and four instances of which there was no invoice available for inspection. All disbursements should be properly approved for payment and supported by appropriate documentation.

Response: These instances appeared to be isolated exceptions from the policy of approvals and documentation. No exceptions were noted in current year testing.

We noted a golf outing fundraiser that did not have a completed Fundraiser Worksheet. This worksheet should be completed for all fundraisers.

Response: Fundraiser worksheets were completed and attached to any fundraising request. No exceptions were noted in current year testing.

CURRENT YEAR RECOMMENDATIONS

General

In examining travel expenditures, we noted instances in which detail supporting documentation was not attached to the employee expense reimbursement form. Receipts should be presented for all charges listed on the reimbursement form. A credit card statement or other summary documents are not sufficient as the detail of expenditures are not evident on such documents.

Response: Dayton Independent Schools shall require a printed hotel bill, detail of all room service charges as well as receipts for all meals and expenses attached to the expense or standard invoice form before a reimbursement shall be issued for travel or any expenses.

In the test of expenditures, we noted (6) instances in which gift cards, varying in number and dollar amount, were purchased by the Family Resource Center for the purpose of rewards or for needy families. Adequate documentation was not provided to ensure the gift cards were used for reasonable and allowable expenditures. Gift cards should not be utilized unless detailed documentation is provided as to the recipient of the card and form of expenditures made with the card.

Response: The Dayton Family Resource Center shall no longer purchase gift cards or gift certificates to be issued to families in need.

For the school year 2002-2003, the Day Care Services Fund operated at a deficit of \$21,341. This amount created a deficit retained earnings balance of \$2,988 at June 30, 2003. Funds of the school district should not have a negative balance in retained earnings.

Response: The following actions will be implemented to reduce expenses for the Day Care Service Fund for the 2003-04 school year:

- Day Care will no longer be provided for the 2-intersession breaks in the fall and the spring.
- Enrollment has increased by 20 students, therefore generating additional revenues.
- Staff numbers have been decreased from 10 to 6. Staffing now follows state regulations for staff/student ratio.
- Field trips have been reduced by 50% thereby reducing cost of admission and the cost of a bus driver.
- A review of Day Care fees charged to participants is being conducted to determine if an increase is necessary.

Food Service

During our test of disbursements, we noted instances where a vendor's monthly statement, particularly Louis Trauth Dairy, did not exactly match to the related invoices. Prior to issuance of payment, we recommend that the monthly statement be reconciled to the invoices for product, number of units delivered, and price extensions.

Response: All monthly statements will be reconciled to the invoices for product, number of units delivered and price extensions.

In preparing the monthly Form SCN-D2, Report and Claim for Reimbursement, the reimbursement rate/meal used in the calculation is incorrect. For the school year 2002-2003, reimbursements were calculated by the state and submitted to the school using rates established for that of a severe need school. We recommend the correct rate be used on the monthly reimbursement form and reconciled monthly to the actual amount submitted from the state. Any discrepancies should be noted.

Response: Form SCN-D2, Report and Claim for Reimbursement, calculation shall be at the correct severe need rate for the monthly reimbursement.

Activity Fund (Dayton High School):

Blank checks were not always stored in a secure location. They were at times left in the printer tray in the bookkeeper's office. We recommend that blank checks be kept in a secure, locked location accessible only to those with proper authorization.

Response: Blank checks will be placed in a locked cabinet in the bookkeeper's office.

The 2003 end of year annual report contained no deficit amounts in the (4) main fund accounts. However, there were (9) sub-accounts of the "Athletic" fund that showed a deficit balance at year end. These accounts are as follows: Athletics – (\$402.66), Volleyball – (\$609.35), Boys Cross Country – (\$423.90), Girls Cross Country – (\$356.90), Boys Golf – (\$80.00), Baseball – (\$889.00), Softball – (\$831.57), Boys Track – (\$726.45), and Girls Track-(\$636.45). No accounts (including sub-accounts) should have a deficit balance at year-end.

Response: No Activity Account (including sub-accounts) shall end the year with a deficit balance.

Collected money, in a few instances, was not deposited at the appropriate times. Money should be deposited whenever \$100 is collected or weekly.

Response: Money will be deposited at appropriate times in compliance with regulations.

There were no inventory control sheets available for the Youth League concession sales. An inventory control sheet should be completed for all items sold.

Response: Inventory control sheets will be used for the 2003/3004 school year.

It was noted that cash refunds were issued to students when the price of a specific activity changed, particularly the 7th grade field trip. Documentation should be available that each student did receive the calculated refund. We recommend that all refunds to students, parents, or others be paid by check or documented by a signed cash receipt.

Response: No cash refunds shall be issued to student, parents or others without signed corresponding documentation upon receipt.

Activity Fund (Lincoln Elementary)

Collected money, in a few instances, was not deposited at the appropriate times. Money should be deposited whenever \$100 is collected or weekly.

Response: Deposits will be made when \$100 is collected or weekly.

There were no inventory control sheets available for the school bookstore. An inventory control sheet should be completed for all items sold.

Response: The principal is going to check into getting a vending machine for sales of paper and pencils.

We want to continually emphasize that because most financial activity is conducted by one individual (the Central Fund Treasurer), it is essential that school principals participate in the financial process by co-signing all checks and reviewing essential documentation such as bank reconciliations and invoices.

RANKIN, RANKIN & COMPANY

Ft. Wright, Kentucky
September 25, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Dayton Independent Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Dayton Independent School District (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The Board, for financial purposes, includes all of the funds and account groups relevant to the operation of the Dayton Independent Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the Board include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Dayton Independent School District Finance Corporation - On April 19, 1989, the Board resolved to authorize the establishment of the Dayton Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of Dayton Independent Board of Education also comprise the Corporation's Board of Directors.

Fund Accounting

The District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts which stands separate from the activities reported in other funds. A description for each class of funds along with the associated restrictions, follows:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use.
- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 - 2. The Facility Support Program of Kentucky Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 - 3. The Construction Fund accounts for proceeds from sale of bonds and other revenues to be used for authorized construction.

II. Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

III. Proprietary Funds (Enterprise Fund)

Proprietary funds are used to account for activities similar to those found in the private sector where the determination of net income is necessary or useful. The Board applies all GASB pronouncements and FASB statements and interpretations except for when FASB statements conflict with a GASB pronouncement.

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). No amounts have been recorded for in-kind contribution of commodities from the USDA. A fixed asset record is maintained for food service equipment.

However, the recording policy is to remove from the equipment listing those assets which have been fully depreciated. Depreciation has been calculated using the straight-line method over the estimated useful lives ranging from four to twelve years. Fixed assets are exclusively furniture and equipment.

The Community Services Fund is used to account for school age childcare and teen-mom daycare which is for teachers and students who are parents.

IV. Fiduciary Fund Type (includes agency and trust funds)

The Activity Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

V. Account Groups

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

A) General Fixed Assets Account Group (not presented)

This group of accounts is established to account for all fixed assets of the District, other than those accounted for in Proprietary Fund and Trust Funds. The general fixed assets account group is not included in these general purpose financial statements since amounts that should be recorded as assets are not readily available.

B) General Long Term Obligations Account Group

This group of accounts is established to account for all long-term obligations of the District, including bonded debt and lease obligations, except those accounted for in Proprietary Funds and Trust Funds.

VI. Property Taxes

Property taxes collected are recorded as revenues in the fund for which they were levied.

Basis of Accounting

The records of the Board are maintained and the budgetary process is based on the modified accrual basis of accounting. This practice is the accounting method prescribed by the Committee for School District Audits.

For financial purposes, the accounting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds pre-

sent increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance.

The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in retained earnings.

Adjustments have been made to properly present the financial statements of the governmental fund types on the modified accrual basis of accounting. On this basis of accounting, revenues are recognized when they become

measurable and available as assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is interest on general long-term debt, which is recognized as an expenditure when paid. The Proprietary Funds are accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

Those revenues susceptible to accrual are taxes, interest, grants and other miscellaneous income.

Budgetary Process

Various funds of the Board are required to adopt annual budgets.

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a cash basis which approximates GAAP accounting.

Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2003. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements.

Cash and Cash Equivalents - The Board considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

Supplies and materials are charged to expenditures when purchased with the exception of the Proprietary Funds, which records inventory using the accrual basis of accounting. The inventory of the Proprietary Fund consists of purchased food. Donated commodities are not included in inventory.

Reservations of Fund Equity

An amount has been determined as a reservation of fund equity representing accrued leave under a prescribed formula of the Kentucky Department of Education.

Total Columns

Total columns on the financial statements are indicated as "Memorandum Only," as data in these columns do not present financial positions, results of operations, or changes in fund balance in conformity with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

NOTE B-ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements,

and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C - CASH AND CASH EQUIVALENTS

At year end, the carrying amount of the District's cash and cash equivalents was \$968,249. Of the total cash balance, \$100,000 was covered by Federal depository insurance, and \$1,882,564 was available by a collateral agreement and collateral held in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

The Board's central bank account, cash and cash equivalents at June 30, 2003 consisted of the following:

	Bank	Book
	<u>Balance</u>	<u>Balance</u>
Fifth Third Bank-checking	\$ <u>859,748</u>	\$ <u>351,630</u>

Due to the nature of the funds and limitations imposed by bond issue requirements, construction projects and federal financial award programs, the portion of the cash balance within the following funds is considered to be restricted:

SEEK Capital Outlay Fund	Special Revenue Fund
FSPK Building Fund	Food Service Fund
Debt Service Funds	Activity Funds

NOTE D - FIXED ASSETS

The amounts that should be recorded as assets are not readily available.

NOTE E - LEASE OBLIGATIONS AND BONDED DEBT

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Dayton Independent School District Finance Corporation aggregating \$3,475,000.

The original amount of each issue, the issue date, and interest rates are summarized below.

<u>Issue Date</u>	<u>Principal</u>	<u>Rates</u>
May 1, 1995	\$ 850,000	4.50%-5.80%
March 1, 1998	\$ 1,590,000	3.90%-4.65%
June 1, 1999	\$ 1,865,000	3.85%-4.80%

The district, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by Dayton Independent School District Finance Corporation to construct school facilities. The district has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District Finance Corporation has issued their bonds in connection with the Kentucky School Facilities Construction Commission (the Commission). Although the Board, under the lease arrangement is obligated to pay the full amount of the lease obligation, the Board has entered into the obligation in reliance upon a participation agreement by and between the Board and the Commission, whereby the Commission has agreed to pay annually a set percentage of each obligation.

A summary of obligations under capital leases is as follows:

	<u>7/1/02</u>	<u>Issued</u>	<u>Retired</u>	<u>6/30/03</u>
Bonds under capital lease	\$ 3,710,000	\$ -	\$ 235,000	\$ 3,475,000
KISTA leases	<u>403,168</u>	<u>-</u>	<u>34,872</u>	<u>368,296</u>
	<u>\$ 4,113,168</u>	<u>\$ -</u>	<u>\$ 269,872</u>	<u>\$ 3,843,296</u>

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, at June 30, 2003 for debt service (principal and interest) are as follows:

Year	Bonds		Interest		Total
	Dayton	K.S.F.C.C.	Dayton	K.S.F.C.C.	
2003-2004	\$ 139,337	\$ 100,663	\$ 98,382	\$ 63,342	\$ 401,724
2004-2005	144,983	105,017	92,310	58,987	401,297
2005-2006	150,340	109,660	85,609	54,343	399,952
2006-2007	165,448	114,552	78,718	49,451	408,169
2007-2008	175,281	119,719	70,874	44,286	410,160
2008-2009	184,833	125,167	62,523	38,837	411,360
2009-2010	182,134	117,866	53,837	33,283	387,120
2010-2011	154,414	95,586	45,651	28,339	323,990
2011-2012	99,888	60,112	39,427	24,678	224,105
2012-2013	106,977	63,023	34,255	21,770	226,025
2013-2014	108,877	66,123	28,651	18,669	222,320
2014-2015	110,621	69,379	22,965	15,415	218,380
2015-2016	82,100	57,900	17,097	11,943	169,040
2016-2017	89,321	60,679	13,156	9,164	172,320
2017-2018	91,409	63,591	8,869	6,251	170,120
2018-2019	93,357	66,643	4,481	3,199	167,680
	<u>\$ 2,079,320</u>	<u>\$ 1,395,680</u>	<u>\$ 756,805</u>	<u>\$ 481,957</u>	<u>\$ 4,713,762</u>

Leases

The Board leases one vehicle. The lease expires February 1, 2004. Total monthly payments are \$137. The Board leases copiers with varying periods and monthly payments. The Board leases property for a five year period at \$750 per month.

Minimum future rentals as of June 30, 2003 are as follows:

Year Ending June 30	Van Lease	Copier Leases	Turner Lease	Total
2004	\$ 957	\$ 33,413	\$ 9,000	\$ 43,370
2005	-	34,666	9,000	43,666
2006	-	34,666	4,500	39,166
2007	-	34,666	-	34,666
2008	-	30,442	-	30,442
2009	-	1,254	-	1,254
	<u>\$ 957</u>	<u>\$ 169,107</u>	<u>\$ 22,500</u>	<u>\$ 192,564</u>

Kentucky Interlocal School Transportation Association (KISTA)

In December of 1994, 1996 and 1997, September, October and December 1999, the Board entered into lease agreements with KISTA for the lease of school buses and financing of various capital improvements. The leases are renewable annually and can be canceled by the Board. Over the ten year lease terms, the Board will pay principal and interest in the amount of \$76,608, \$57,076 and \$73,686, \$193,073, \$283,244 and \$107,122. Interest rates vary from 4.10% to 5.70%.

The minimum future rental payments as of June 30, 2003 are as follows:

	<u>1994</u>	<u>1996</u>	<u>1997</u>	<u>09/01/99</u>	<u>10/01/99</u>	<u>12/01/99</u>	<u>Total</u>
2004	\$ 6,594	\$ 5,716	\$ 7,351	\$ 9,415	\$ 14,104	\$ 10,697	\$ 53,877
2005	6,591	5,701	7,332	9,231	14,826	10,329	54,010
2006	-	4,829	7,359	10,025	14,486	10,929	47,628
2007	-	4,820	6,252	9,768	14,146	10,479	45,465
Thereafter	<u>-</u>	<u>-</u>	<u>6,237</u>	<u>115,657</u>	<u>174,146</u>	<u>21,530</u>	<u>317,570</u>
	13,185	21,066	34,531	154,096	231,708	63,964	518,550
Less amounts representing interest	<u>(1,047)</u>	<u>(2,283)</u>	<u>(4,156)</u>	<u>(53,096)</u>	<u>(79,708)</u>	<u>(9,964)</u>	<u>(150,254)</u>
Total	\$ <u>12,138</u>	\$ <u>18,783</u>	\$ <u>30,375</u>	\$ <u>101,000</u>	\$ <u>152,000</u>	\$ <u>54,000</u>	\$ <u>368,296</u>

NOTE F-ACCUMULATED UNPAID SICK LEAVE BENEFITS

Employees earn 10 days of sick leave each year and can accrue them without limitations. In addition, two emergency days and one personal day not used at the end of the year can be added to sick days. Upon retirement, (with 27 years of service), unused sick days are paid at the rate of 30% of daily salary. The Board has established a reserve to account for compensated absences. At June 30, 2003, the amount reserved as accrued leave for eligible future retirees (27 years or more of service) totaled \$50,000, and a general long-term obligation of \$195,972 has been recognized.

NOTE G - RETIREMENT PLANS

Plan Description and Funding Policy

Certified employees are covered under the Kentucky Teachers Retirement System, a multiple employer, public employers retirement system. Funding for the plan is provided through payroll withholdings of 9.855% and matching state contributions. The matching contributions are paid by the federal program for any salaries paid by that program. Matching state contributions are not recorded by the Board as a cost of operating the District.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, public employers retirement system. Funding for the plan is provided through payroll withholdings of 5.00% and a District contribution of 6.34% of the employee's total compensation subject to contribution.

The plans provide for retirement, disability, and death benefits to plan members, and under certain circumstances to plan member beneficiaries.

Participating employers are required to contribute at an actuarially determined rate. Normal contributions and past service rates are determined by the Board of the plans based upon an annual valuation.

The District's contribution requirement for CERS for the year ended June 30, 2003, was \$55,377, \$59,607 in 2002 and \$63,014 in 2001. The District had a \$61,045 contribution requirement to KTRS for 2003, \$41,195 in 2002, and \$41,304 in 2001. The contributions represented 100% of the required contributions.

Benefits under both plans will vary based on final compensation, years of service, and other factors as fully described in the plan documents.

The retirement systems issued publicly available annual financial reports that include financial statements and required supplementary information. The reports may be obtained from the retirement systems by contacting their operating headquarters in Frankfort, Kentucky.

NOTE H - CONTINGENCIES

The district receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the district for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the district's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and grantors' intent to continue their programs.

NOTE I - INSURANCE AND RELATED ACTIVITIES

The district is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The district has purchased certain policies which are retrospectively rated which includes worker's compensation insurance.

NOTE J - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The district pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund

are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss, including the coverages listed in the supplemental data. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE K - DEFICIT OPERATING/FUND BALANCES

The following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

Lincoln Elementary School Activity Fund	\$	3,757
Seek Fund	\$	18,854
FSPK Fund	\$	8,650

The Day Care Services Fund had operations that resulted in a current year deficit of revenues over expenditures of \$21,341. This deficit in operations created a deficit retained earnings balance of \$2,988 at June 30, 2003.

NOTE L - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

NOTE M - TRANSFER FUNDS

The following transfers were made during the year.

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General Fund	Special Revenue	Technology Match	\$ 7,500
Operating	SEEK Fund	Construction Fund	Reserves	\$ 40,000

NOTE N - ANNUAL FINANCIAL REPORT DIFFERENCES

The following is a reconciliation of the June 30, 2003 net income (loss) reported in the Board's Annual Financial Report with that shown in the accompanying financial statements:

	<u>School Food Service</u>	<u>Day Care Services</u>
Net income(loss) as reported to the Department of Education	\$ (13,339)	\$ (17,516)
Period 13 adjustment-accounts receivable	-	(4,762)
Additional accounts receivable	-	2,033
Depreciation	(3,332)	-
Additional accounts receivable	-	(259)
Inventory change	<u>208</u>	<u>-</u>
Net income (loss) as reported in accompanying financial statements	\$ <u><u>(16,463)</u></u>	\$ <u><u>(20,504)</u></u>

	<u>General Fund</u>
Excess (deficiency) of revenue over expenditures as reported to the Department of Education	\$ 104,833
Additional accounts receivable	251
Additional account payable	<u>(1,656)</u>
Excess (deficiency) of revenue over expenditures as reported in accompanying financial statements	\$ <u><u>103,428</u></u>

NOTE O – GASB 34

GASB 34 requires that state and local government entities change their financial reporting, and the Board must adopt this statement no later than July 1, 2003. The new financial reporting model calls for financial statements integrated with government-wide reporting and enhanced fund reporting. It also requires a section for management's discussion and analysis (MD & A) and the reporting of the Board's infrastructure and depreciation.

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses a qualified opinion on the general purpose financial statements of the Board.
2. No reportable conditions relating to the audit of the financial statements of the Board are reported in the Report on Compliance and on Internal Control over Financial Reporting.
3. No instances of noncompliance material to the financial statements of the Board were disclosed in the Report on Compliance with Requirements Applicable to Each Major Program.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program.
5. The auditor's report on compliance for the major federal award programs for the Board expresses an unqualified opinion on all major federal programs.
6. The programs tested as major programs included:

Program	CFDA No.
National School Breakfast Program	10.553
National School Lunch Program	10.555
Summer Program	10.559
Title I	84.010

7. The threshold for distinguishing Types A and B programs was \$300,000.
8. The Board was determined not to be a low-risk auditee because of the qualified opinion on the general purpose financial statements even though the qualification had no relationship to Federal Programs.

FINDINGS-FINANCIAL STATEMENTS AUDIT

NON COMPLIANCE - None

FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT-
None.